

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Pinconning Township	County Bay
Fiscal Year End 03/31/07	Opinion Date 08/02/07	Date Audit Report Submitted to State August 24, 2007	

We affirm that:

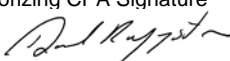
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- |     | YES                                 | NO                                  | Check each applicable box below. (See instructions for further detail.)   |
|-----|-------------------------------------|-------------------------------------|---|
| 1.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.   |
| 2.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.   |
| 3.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4.  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | The local unit has adopted a budget for all required funds.   |
| 5.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | A public hearing on the budget was held in accordance with State statute.   |
| 6.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.   |
| 7.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | The local unit is free of repeated comments from previous years.  |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The audit opinion is UNQUALIFIED.   |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Government Auditing Standards letter page 6-1 – 6-3 of financial statements	
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 989-793-9830	
Street Address 3023 Davenport		City Saginaw	State MI
Zip 48602			
Authorizing CPA Signature 	Printed Name David R Youngstrom		License Number A262757

**Pinconning Township**  
**Bay County, Michigan**  
**Annual Financial Statements**  
**and**  
**Auditors' Report**  
**March 31, 2007**

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**Pinconning Township**  
**List of Elected and Appointed Officials**  
**March 31, 2007**

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Township Board

Sharon Stalsberg - Supervisor

Mary Ann Waibel - Treasurer

Mary Kusterer - Clerk

Louis Buchalski - Trustee

Charles Lichon - Trustee

## **Independent Auditors' Report**

To the Township Board  
Pinconning Township  
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Pinconning Township as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Pinconning Township as of March 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2007 on our consideration of the Pinconning Township internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pinconning Township's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Township has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
August 2, 2007

**Pinconning Township**  
**Statement of Net Assets**  
**March 31, 2007**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 693,366	\$ 229,949	\$ 923,315	\$ 31,734
Investments	17,329	-	17,329	-
Receivables				
Taxes	8,229	-	8,229	-
Customers	-	-	-	2,562
Special assessments	267,340	1,208,359	1,475,699	-
Accrued interest and other	20,114	-	20,114	-
Due from other units of government	43,276	9,507	52,783	-
Restricted assets				
Cash and cash equivalents	-	214,376	214,376	-
Capital assets not being depreciated	31,322	-	31,322	18,000
Capital assets, net of accumulated depreciation	<u>846,217</u>	<u>3,384,875</u>	<u>4,231,092</u>	<u>-</u>
Total assets	<u>1,927,193</u>	<u>5,047,066</u>	<u>6,974,259</u>	<u>52,296</u>
<b>Liabilities</b>				
Accounts payable	-	-	-	488
Accrued and other liabilities	3,219	39,688	42,907	126
Noncurrent liabilities				
Due within one year	29,733	68,205	97,938	-
Due in more than one year	<u>764,534</u>	<u>1,988,143</u>	<u>2,752,677</u>	<u>-</u>
Total liabilities	<u>797,486</u>	<u>2,096,036</u>	<u>2,893,522</u>	<u>614</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	83,272	1,328,527	1,411,799	18,000
Restricted for:				
Debt service	158,233	214,376	372,609	-
Unrestricted	<u>888,202</u>	<u>1,408,127</u>	<u>2,296,329</u>	<u>33,682</u>
Total net assets	<u>\$ 1,129,707</u>	<u>\$ 2,951,030</u>	<u>\$ 4,080,737</u>	<u>\$ 51,682</u>

See Accompanying Notes to Financial Statements



**Pinconning Township**  
**Statement of Activities**  
**For the Year Ended March 31, 2007**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
Governmental activities								
General government	\$ 191,232	\$ 7,569	\$ -	\$ -	\$ (183,663)	\$ -	\$ (183,663)	\$ -
Public safety	52,586	1,191	-	-	(51,395)	-	(51,395)	-
Public works	233,307	226,440	-	-	(6,867)	-	(6,867)	-
Health and welfare	2,610	21,860	-	-	19,250	-	19,250	-
Community and economic development	6,170	-	-	-	(6,170)	-	(6,170)	-
Recreation and culture	4,300	-	-	-	(4,300)	-	(4,300)	-
Interest on long-term debt	37,365	-	-	-	(37,365)	-	(37,365)	-
Total governmental activities	<u>527,570</u>	<u>257,060</u>	<u>-</u>	<u>-</u>	<u>(270,510)</u>	<u>-</u>	<u>(270,510)</u>	<u>-</u>
Business-type activities								
Water	<u>269,521</u>	<u>40,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(228,951)</u>	<u>(228,951)</u>	<u>-</u>
Total primary government	<u>\$ 797,091</u>	<u>\$ 297,630</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(270,510)</u>	<u>(228,951)</u>	<u>(499,461)</u>	<u>-</u>
<b>Component units</b>								
Downtown Development Authority	\$ 20,542	\$ 10,248	\$ -	\$ -				(10,294)
Brownfield Redevelopment Authority	5,007	-	-	-				(5,007)
	<u>\$ 25,549</u>	<u>\$ 10,248</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(15,301)</u>
General revenues								
Property taxes					83,547	-	83,547	17,803
State shared revenue					177,856	-	177,856	-
Unrestricted investment earnings					24,289	89,696	113,985	939
Miscellaneous					15,713	58	15,771	408
Total general revenues					<u>301,405</u>	<u>89,754</u>	<u>391,159</u>	<u>19,150</u>
Change in net assets					<u>30,895</u>	<u>(139,197)</u>	<u>(108,302)</u>	<u>3,849</u>
Net assets - beginning of year					1,098,812	3,062,299	4,161,111	47,833
Prior period adjustment					-	27,928	27,928	-
Net assets - beginning of year (restated)					<u>1,098,812</u>	<u>3,090,227</u>	<u>4,189,039</u>	<u>47,833</u>
<b>Net assets - end of year</b>					<u>\$ 1,129,707</u>	<u>\$ 2,951,030</u>	<u>\$ 4,080,737</u>	<u>\$ 51,682</u>

See Accompanying Notes to Financial Statements

**Pinconning Township**  
**Governmental Funds**  
**Balance Sheet**  
**March 31, 2007**

	General	Special Revenue Fund Refuse Collection Fund	Debt Service Fund Dredging	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 348,802	\$ 106,271	\$ 64,790	\$ 173,503	\$ 693,366
Investments	-	17,329	-	-	17,329
Receivables					
Taxes	5,909	-	-	2,320	8,229
Special assessments	-	10,642	256,698	-	267,340
Accrued interest and other	20,114	-	-	-	20,114
Due from other units of government	43,276	-	-	-	43,276
<b>Total assets</b>	<u>\$ 418,101</u>	<u>\$ 134,242</u>	<u>\$ 321,488</u>	<u>\$ 175,823</u>	<u>\$ 1,049,654</u>
<b>Liabilities</b>					
Deferred revenue	\$ 14,147	\$ 10,642	\$ 256,698	\$ -	\$ 281,487
<b>Fund balances</b>					
Reserved for:					
Debt service	-	-	64,790	93,443	158,233
Unreserved					
Designated for:					
Emergency services	35,741	-	-	20,797	56,538
Cemetery maintenance	-	-	-	13,184	13,184
Unreserved, reported in:					
General fund	368,213	-	-	-	368,213
Special revenue funds	-	123,600	-	667	124,267
Capital project funds	-	-	-	47,732	47,732
<b>Total fund balances</b>	<u>403,954</u>	<u>123,600</u>	<u>64,790</u>	<u>175,823</u>	<u>768,167</u>
<b>Total liabilities and fund balances</b>	<u>\$ 418,101</u>	<u>\$ 134,242</u>	<u>\$ 321,488</u>	<u>\$ 175,823</u>	<u>\$ 1,049,654</u>

See Accompanying Notes to Financial Statements

**Pinconning Township**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Assets of Governmental Activities**  
**March 31, 2007**

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<b>Total fund balances for governmental funds</b>	\$ 768,167
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	877,539
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	281,487
Certain liabilities are not due and payable in the current period and are not reported in the funds. Accrued interest	(3,219)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	<u>(794,267)</u>
<b>Net assets of governmental activities</b>	<u>\$ 1,129,707</u>

**Pinconning Township**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended March 31, 2007**

	General	Special Revenue Fund Refuse Collection Fund	Debt Service Fund Dredging	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 83,547	\$ -	\$ -	\$ -	\$ 83,547
Licenses and permits	3,314	-	-	-	3,314
State revenue sharing	177,418	-	-	-	177,418
Other state grants	-	-	-	1,842	1,842
Local contributions	-	-	-	1,425	1,425
Charges for services	112,348	90,671	38,404	21,860	263,283
Interest income	16,199	814	2,214	5,062	24,289
Rental income	1,320	-	-	-	1,320
Other revenue	9,333	18	2,025	-	11,376
Total revenues	403,479	91,503	42,643	30,189	567,814
<b>Expenditures</b>					
Current					
General government	142,263	-	-	-	142,263
Public safety	49,037	-	-	3,549	52,586
Public works	135,006	92,507	-	-	227,513
Health and welfare	2,610	-	-	-	2,610
Community and economic development	6,170	-	-	-	6,170
Recreation and culture	4,300	-	-	-	4,300
Other functions	20,275	-	-	-	20,275
Capital outlay	-	-	-	34,745	34,745
Debt service					
Principal retirement	-	-	23,733	6,000	29,733
Interest and fiscal charges	-	-	16,278	22,230	38,508
Total expenditures	359,661	92,507	40,011	66,524	558,703
Excess (deficiency) of revenues over expenditures	43,818	(1,004)	2,632	(36,335)	9,111
<b>Other financing sources (uses)</b>					
Transfers in	-	-	-	75,060	75,060
Transfers out	(75,060)	-	-	-	(75,060)
Total other financing sources and uses	(75,060)	-	-	75,060	-
Net change in fund balance	(31,242)	(1,004)	2,632	38,725	9,111
Fund balance - beginning of year	435,196	124,604	62,158	137,098	759,056
<b>Fund balance - end of year</b>	<b>\$ 403,954</b>	<b>\$ 123,600</b>	<b>\$ 64,790</b>	<b>\$ 175,823</b>	<b>\$ 768,167</b>

See Accompanying Notes to Financial Statements

**Pinconning Township**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended March 31, 2007**

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**Net change in fund balances - Total governmental funds** \$ 9,111

Total change in net assets reported for governmental activities in the statement of activities  
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those  
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(33,548)
Capital outlay	34,805
Sale of capital assets	(1,000)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue  
in the funds.

State shared revenue	438
Special assessments	(9,787)

Expenses are recorded when incurred in the statement of activities

Accrued interest	1,143
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Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in  
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not  
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds  
but reduces the liability in the statement of net assets.

Repayments of long-term debt	<u>29,733</u>
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**Change in net assets of governmental activities** **\$ 30,895**

**Pinconning Township**  
**Proprietary Funds**  
**Statement of Net Assets**  
**March 31, 2007**

	<u>Water</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 229,949
Receivables	
Special assessments, current	53,089
Due from other units of government	<u>9,507</u>
Total current assets	<u>292,545</u>
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	214,376
Special assessments receivable, deferred	1,155,270
Capital assets, net	<u>3,384,875</u>
Total noncurrent assets	<u>4,754,521</u>
Total assets	<u>5,047,066</u>
<b>Liabilities</b>	
Current liabilities	
Accrued and other liabilities	39,688
Current portion of noncurrent liabilities	<u>68,205</u>
Total current liabilities	<u>107,893</u>
Noncurrent liabilities	
Long-term debt net of current portion	<u>1,988,143</u>
Total liabilities	<u>2,096,036</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	1,328,527
Restricted for:	
Debt service	214,376
Unrestricted	<u>1,408,127</u>
<b>Total net assets</b>	<u><u>\$ 2,951,030</u></u>

See Accompanying Notes to Financial Statements

**Pinconning Township**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended March 31, 2007**

	<u>Water</u>
<b>Operating revenue</b>	
Customer fees	\$ 36,711
Other revenue	<u>119</u>
Total operating revenue	<u>36,830</u>
<b>Operating expenses</b>	
Supplies	289
Contractual services	567
Other expenses	5,796
Depreciation	<u>158,285</u>
Total operating expenses	<u>164,937</u>
Operating loss	<u>(128,107)</u>
<b>Nonoperating revenue (expenses)</b>	
Interest income	89,694
Interest expense	<u>(104,584)</u>
Total nonoperating revenues (expenses)	<u>(14,890)</u>
Loss before contributions	(142,997)
Capital contributions	<u>3,800</u>
Change in net assets	<u>(139,197)</u>
Net assets - beginning of year	3,062,299
Prior period adjustment	<u>27,928</u>
Net assets - beginning of year restated	<u>3,090,227</u>
<b>Net assets - end of year</b>	<u><u>\$ 2,951,030</u></u>

See Accompanying Notes to Financial Statements

**Pinconning Township**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended March 31, 2007**

	<u>Water</u>
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 35,932
Payments to other funds	(13,760)
Payments to suppliers	<u>(2,359)</u>
Net cash provided by operating activities	<u>19,813</u>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from capital debt	50,000
Proceeds from special assessments	90,313
Capital contributions	3,800
Purchases/construction of capital assets	(62,241)
Principal and interest paid on long-term debt	<u>(310,236)</u>
Net cash used by capital and related financing activities	<u>(228,364)</u>
<b>Cash flows from investing activities</b>	
Interest received	<u>89,694</u>
Net decrease in cash and cash equivalents	(118,857)
Cash and cash equivalents - beginning of year	<u>563,182</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 444,325</u>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities</b>	
Operating loss	\$ (128,107)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation and amortization expense	158,285
Changes in assets and liabilities	
Due from other units of government	(898)
Accrued and other liabilities	4,293
Due to other funds	<u>(13,760)</u>
<b>Net cash provided by operating activities</b>	<u>\$ 19,813</u>

See Accompanying Notes to Financial Statements



**Pinconning Township**  
**Fiduciary Funds**  
**Statement of Assets and Liabilities**  
**March 31, 2007**

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	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 132</u>
<b>Liabilities</b>	
Accrued and other liabilities	<u>\$ 132</u>

See Accompanying Notes to Financial Statements

**Pinconning Township**  
**Notes to Financial Statements**  
**March 31, 2007**

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**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

Pinconning Township is governed by an elected five-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component units column in the entity wide financial statements includes the financial data of the Township's Brownfield Redevelopment Authority and the Downtown Development Authority. These units are reported in separate columns to emphasize that they are legally separate from the Township. The members of the Governing Board of both Authorities are appointed by the Township Board. The budgets and expenditures of the Authorities must be approved by the Township Board. The Township also has the ability to significantly influence operations of both the Brownfield Redevelopment Authority and the Downtown Development Authority. The Brownfield Redevelopment Authority and the Downtown Development Authority do not issue any other form of financial statements except as contained in the Pinconning Township annual financial statements.

**Jointly Governed Organizations**

Pinconning Township, the City of Pinconning, and the Township of Fraser participate jointly in the operation of the Pinconning Fraser Fire Department. The funding formula requires that each municipality share the operational costs of the building. All of the financial

operations of the fire department are recorded in the Pinconning Fraser Fire Department. The Township's appropriation to the Pinconning Fraser Fire Department for the period ending March 31, 2007 was \$46,570.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Pinconning Township**  
**Notes to Financial Statements**  
**March 31, 2007**

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**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Refuse Collection Fund accounts for the revenue and expenditures with the government's refuse collection operation.

The Dredging Fund accounts for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The non-major special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The non-major debt service fund accounts for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

The non-major capital projects fund accounts for the revenue and expenses of capital projects.

The Agency Fund accounts for property tax and other deposits collected on behalf of other units and individuals.

# Pinconning Township

## Notes to Financial Statements

### March 31, 2007

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water

funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Assets, Liabilities, and Net Assets or Equity**

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

**Pinconning Township**  
**Notes to Financial Statements**  
**March 31, 2007**

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The 2006 taxable valuation of the government totaled \$56,625,531, on which ad valorem taxes consisted of 1.1960 mills for operating purposes. This resulted in \$67,724 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

**Restricted assets** – Certain revenue bonds of the Water Fund require amounts to be set aside for a bond reserve. These amounts have been classified as restricted cash and cash equivalents.

**Capital assets** – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water lines	50 to 75 years
Vehicles	3 to 10 years
Office equipment computer equipment	5 to 7 years
Computer equipment	3 to 7 years

**Long-term obligations** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Comparative Data**

Comparative data is not included in the government's financial statements.

**Pinconning Township**  
**Notes to Financial Statements**  
**March 31, 2007**

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**Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information**

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to March 31, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 31.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Township Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Township Board.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

**Excess of Expenditures over Appropriations**

The Township incurred expenditures in excess of the board approved budget in the General Fund for public safety activities in the amount of \$267.

Additionally, budgets were not adopted for the Cemetery Fund or the Ambulance Fund.

**Note 3 - Deposits and Investments**

As of year end, the government's only investments were certificate of deposits.

*Interest rate risk* – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

*Credit risk* – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial credit risk - deposits* – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$942,336 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Pinconning Township**  
**Notes to Financial Statements**  
**March 31, 2007**

**Note 4 - Receivables and Deferred Revenue**

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
<b>Primary government</b>		
Special assessments	\$ 245,480	Debt Service
Special assessments	\$ 1,155,270	Water Fund

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
<b>Primary government</b>	
State shared revenue	\$ 14,147
Special assessments	267,340
	<u>\$ 281,487</u>

**Note 5 - Capital Assets**

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 32,322	\$ -	\$ 1,000	\$ 31,322
Construction in progress	276,710	-	276,710	-
Total capital assets not being depreciated	309,032	-	277,710	31,322
Capital assets being depreciated				
Land improvements	20,000	311,515	-	331,515
Buildings, additions and improvements	734,927	-	-	734,927
Machinery and equipment	22,439	-	-	22,439
Total capital assets being depreciated	777,366	311,515	-	1,088,881
Less accumulated depreciation for				
Land improvements	1,667	12,068	-	13,735
Buildings, additions and improvements	187,369	20,389	-	207,758
Machinery and equipment	20,080	1,091	-	21,171
Total accumulated depreciation	209,116	33,548	-	242,664
Net capital assets being depreciated	568,250	277,967	-	846,217
Governmental activities capital assets, net	\$ 877,282	\$ 277,967	\$ 277,710	\$ 877,539
<b>Business-type activities</b>				
Capital assets not being depreciated				
Construction in progress	\$ 413,760	\$ -	\$ 413,760	\$ -
Capital assets being depreciated				
Machinery and equipment	39,005	-	-	39,005
Water system	3,368,982	476,001	-	3,844,983
Total capital assets being depreciated	3,407,987	476,001	-	3,883,988
Less accumulated depreciation for				
Machinery and equipment	13,930	5,572	-	19,502
Water system	326,898	152,713	-	479,611
Total accumulated depreciation	340,828	158,285	-	499,113
Net capital assets being depreciated	3,067,159	317,716	-	3,384,875
Business-type capital assets, net	\$ 3,480,919	\$ 317,716	\$ 413,760	\$ 3,384,875

**Pinconning Township**  
**Notes to Financial Statements**  
**March 31, 2007**

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Capital assets activity of the component unit for the current year was as follows:

<b>Component Unit</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 18,000	\$ -	\$ -	\$ 18,000

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental activities</b>	
General government	\$ 32,763
Public works	<u>785</u>
Total governmental activities	<u>33,548</u>
<b>Business-type activities</b>	
Water	<u>158,285</u>
Total primary government	<u>\$191,833</u>

**Note 6 - Interfund Receivables, Payable, and Transfers**

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General	Non-major governmental funds	<u>\$ 75,060</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.



**Pinconning Township**  
**Notes to Financial Statements**  
**March 31, 2007**

**Note 7 - Long-Term Debt**

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>									
Bonds and notes payable									
Building Authority Loan	\$ 500,000	2041	4.75%	\$6,000 - \$27,000	\$ 468,000	\$ -	\$ 6,000	\$ 462,000	\$ 6,000
Dredge Loan	356,000	2021	4.65%	23,733 - 23,734	356,000	-	23,733	332,267	23,733
Total governmental activities					\$ 824,000	\$ -	\$ 29,733	\$ 794,267	\$ 29,733
<b>Business-type activities</b>									
Bonds and notes payable									
General obligation bonds									
Water Supply System Revenue									
Bonds, Series 2001	\$ 555,000	2042	4.75%	\$6,000 - \$31,000	\$ 535,000	\$ -	\$ 5,000	\$ 530,000	\$ 6,000
Special assessment obligations									
2001 Special Assessment									
Limited Tax Bonds	1,377,000	2036	4.75%	10,000 - 36,000	1,177,000	-	177,000	1,000,000	35,000
Notes Payable									
District #5 Waterline	400,000	2021	4.69%	19,916 - 36,044	400,000	-	18,922	381,078	19,916
District #6 Waterline	100,000	2021	4.69%	4,979 - 9,011	100,000	-	4,730	95,270	4,979
District #7 Waterline	50,000	2022	5.04%	2,310 - 4,598	-	50,000	-	50,000	2,310
Total business-type activities					\$ 2,212,000	\$ 50,000	\$ 205,652	\$ 2,056,348	\$ 68,205

**Pinconning Township**  
**Notes to Financial Statements**  
**March 31, 2007**

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending March 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 29,733	\$ 37,253	\$ 68,205	\$ 96,560
2009	30,733	35,841	69,421	93,332
2010	30,733	34,404	70,762	90,042
2011	30,733	32,968	73,166	86,666
2012	30,733	31,532	74,637	83,200
2013 - 2017	160,666	135,431	403,803	360,983
2018 - 2022	146,936	96,680	416,354	259,758
2023 - 2027	67,000	71,703	244,000	180,504
2028 - 2032	84,000	53,817	266,000	119,890
2033 - 2037	105,000	31,467	228,000	56,625
2038 - 2042	78,000	5,653	142,000	17,481
	<u>\$ 794,267</u>	<u>\$ 566,749</u>	<u>\$ 2,056,348</u>	<u>\$ 1,445,041</u>

**Note 8 - Risk Management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 9 - Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor

cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**Note 10 - Upcoming Accounting and Reporting Change**

The Governmental Accounting Standards Board has recently released statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

The Government Accounting Standards Board has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving *receivables* should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for

**Pinconning Township**  
**Notes to Financial Statements**  
**March 31, 2007**

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sales of receivables and future revenues within the same financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of *existing* pollution. It does not include *prevention* or *control* activities nor future remediation required upon retirement of an asset. In general, a liability will be recorded based on the *current value* of expected costs as estimated using the *expected cash flows method*. This statement is effective for financial statements with periods ending after December 15, 2007. However, measurement is required as of the beginning of the period.

**Note 11 - Prior Period Adjustment**

The March 31, 2007 financial statements have been restated to account for special assessments that were not recognized by the Township in prior years. Therefore, in the prior year assets and net assets were understated by \$27,928.

**Pinconning Township**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended March 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes				
Property taxes	\$ 69,000	\$ 74,028	\$ 66,023	\$ (8,005)
Administration fee	8,000	16,000	17,524	1,524
Licenses and permits	2,000	3,200	3,314	114
State revenue sharing	100,000	177,657	177,418	(239)
Charges for services	86,759	120,613	112,348	(8,265)
Interest income	3,000	12,000	16,199	4,199
Rental income	-	-	1,320	1,320
Other revenue	<u>3,600</u>	<u>5,555</u>	<u>9,333</u>	<u>3,778</u>
Total revenues	<u>272,359</u>	<u>409,053</u>	<u>403,479</u>	<u>(5,574)</u>
<b>Expenditures</b>				
General government				
Township board	4,600	4,600	4,600	-
Supervisor	12,700	12,700	12,700	-
Accounting	76,008	45,908	35,401	(10,507)
Clerk	15,900	15,900	15,900	-
Audit	7,500	7,500	7,500	-
Board of review	2,700	2,000	837	(1,163)
Treasurer	15,900	15,900	15,900	-
Assessor	11,810	9,310	14,941	5,631
Elections	7,000	4,000	3,823	(177)
Buildings and grounds	59,700	25,200	23,238	(1,962)
Attorney	15,000	3,000	2,808	(192)
Cemetery	<u>8,000</u>	<u>4,200</u>	<u>4,615</u>	<u>415</u>
Total general government	<u>236,818</u>	<u>150,218</u>	<u>142,263</u>	<u>(7,955)</u>
Public safety				
Police	3,200	2,200	2,467	267
Fire department	<u>46,570</u>	<u>46,570</u>	<u>46,570</u>	<u>-</u>
Total public safety	<u>49,770</u>	<u>48,770</u>	<u>49,037</u>	<u>267</u>

**Pinconning Township**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended March 31, 2007**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public works				
Drains	\$ 5,000	\$ 2,000	\$ 1,360	\$ (640)
Highways, streets and bridges	145,000	129,000	128,442	(558)
Street lighting	5,000	5,500	5,204	(296)
Total public works	155,000	136,500	135,006	(1,494)
Health and welfare				
Ambulance	2,610	2,610	2,610	-
Community and economic development				
Planning	2,800	1,500	1,370	(130)
Zoning	4,800	4,800	4,800	-
Total community and economic development	7,600	6,300	6,170	(130)
Recreation and culture				
Parks and recreation	5,500	4,500	4,300	(200)
Other functions				
Insurance and bonds	12,000	12,000	11,790	(210)
Unallocated employee fringe benefits	10,000	8,500	6,469	(2,031)
Contingency	27,131	3,000	2,016	(984)
Total other functions	49,131	23,500	20,275	(3,225)
Capital outlay	12,000	-	-	-
Transfers out	90,060	95,060	75,060	(20,000)
Total expenditures	608,489	467,458	434,721	(32,737)
Excess (deficiency) of revenues over expenditures	(336,130)	(58,405)	(31,242)	27,163
Fund balance - beginning of year	435,196	435,196	435,196	-
<b>Fund balance - end of year</b>	<b>\$ 99,066</b>	<b>\$ 376,791</b>	<b>\$ 403,954</b>	<b>\$ 27,163</b>

**Pinconning Township**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Refuse Collection Fund**  
**For the Year Ended March 31, 2007**

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Charges for services	\$ 99,495	\$ 99,495	\$ 90,671	\$ (8,824)
Interest income	130	130	814	684
Other revenue	90	90	18	(72)
Total revenues	99,715	99,715	91,503	(8,212)
<b>Expenditures</b>				
Current				
Public works	110,554	110,554	92,507	(18,047)
Deficiency of revenues over expenditures	(10,839)	(10,839)	(1,004)	9,835
Fund balance - beginning of year	124,604	124,604	124,604	-
<b>Fund balance - end of year</b>	<u>\$ 113,765</u>	<u>\$ 113,765</u>	<u>\$ 123,600</u>	<u>\$ 9,835</u>

**Pinconning Township**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**March 31, 2007**

	<u>Special Revenue Funds</u>					
	<u>Liquor Control</u>	<u>Cemetery</u>	<u>Ambulance</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>						
Cash and cash equivalents	\$ 667	\$ 13,184	\$ 18,477	\$ 93,443	\$ 47,732	\$ 173,503
Receivables						
Taxes	<u>-</u>	<u>-</u>	<u>2,320</u>	<u>-</u>	<u>-</u>	<u>2,320</u>
<b>Total assets</b>	<u>\$ 667</u>	<u>\$ 13,184</u>	<u>\$ 20,797</u>	<u>\$ 93,443</u>	<u>\$ 47,732</u>	<u>\$ 175,823</u>
<b>Fund balances</b>						
Reserved for:						
Debt service	\$ -	\$ -	\$ -	\$ 93,443	\$ -	\$ 93,443
Unreserved						
Designated for:						
Cemetery maintenance	-	13,184	-	-	-	13,184
Emergency services	-	-	20,797	-	-	20,797
Undesignated	<u>667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,732</u>	<u>48,399</u>
<b>Total fund balances</b>	<u>\$ 667</u>	<u>\$ 13,184</u>	<u>\$ 20,797</u>	<u>\$ 93,443</u>	<u>\$ 47,732</u>	<u>\$ 175,823</u>

**Pinconning Township**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended March 31, 2007**

	Special Revenue Funds			Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	Liquor Control	Cemetery	Ambulance			
<b>Revenues</b>						
State grants	\$ 1,842	\$ -	\$ -	\$ -	\$ -	\$ 1,842
Local contributions	-	1,425	-	-	-	1,425
Charges for services	-	-	21,860	-	-	21,860
Interest income	4	488	56	2,856	1,658	5,062
Total revenues	1,846	1,913	21,916	2,856	1,658	30,189
<b>Expenditures</b>						
Current						
Public safety	2,430	-	1,119	-	-	3,549
Capital outlay	-	-	-	-	34,745	34,745
Debt service						
Principal retirement	-	-	-	6,000	-	6,000
Interest and fiscal charges	-	-	-	22,230	-	22,230
Total expenditures	2,430	-	1,119	28,230	34,745	66,524
Excess (deficiency) of revenues over expenditures	(584)	1,913	20,797	(25,374)	(33,087)	(36,335)
<b>Other financing sources</b>						
Transfers in	-	-	-	75,060	-	75,060
Net change in fund balance	(584)	1,913	20,797	49,686	(33,087)	38,725
Fund balance - beginning of year	1,251	11,271	-	43,757	80,819	137,098
<b>Fund balance - end of year</b>	<u>\$ 667</u>	<u>\$ 13,184</u>	<u>\$ 20,797</u>	<u>\$ 93,443</u>	<u>\$ 47,732</u>	<u>\$ 175,823</u>



**Pinconning Township**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Component Units**  
**For the Year Ended March 31, 2007**

	Brownfield Redevelopment Authority	Downtown Development Authority	Total Component Units
<b>Revenues</b>			
Taxes	\$ 5,007	\$ 12,796	\$ 17,803
Charges for services	-	10,248	10,248
Interest income	17	922	939
Other revenue	-	408	408
	<u>5,024</u>	<u>24,374</u>	<u>29,398</u>
<b>Expenditures</b>			
Current			
General government	5,007	-	5,007
Public works	-	20,542	20,542
	<u>5,007</u>	<u>20,542</u>	<u>25,549</u>
Total expenditures			
	<u>5,007</u>	<u>20,542</u>	<u>25,549</u>
Excess of revenues over expenditures	17	3,832	3,849
Fund balance - beginning of year	<u>3,503</u>	<u>26,330</u>	<u>29,833</u>
<b>Fund balance - end of year</b>	<u>\$ 3,520</u>	<u>\$ 30,162</u>	<u>\$ 33,682</u>

**Pinconning Township**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**March 31, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	April Interest Payment	October Interest Payment	Total
<b>Governmental Activities</b>						
Building Authority Loan	4.75%	04/01/08	\$ 6,000	\$ 10,973	\$ 10,830	\$ 27,803
Amount of issue - \$ 500,000	4.75%	04/01/09	7,000	10,830	10,664	28,494
	4.75%	04/01/10	7,000	10,664	10,497	28,161
	4.75%	04/01/11	7,000	10,497	10,331	27,828
	4.75%	04/01/12	7,000	10,331	10,165	27,496
	4.75%	04/01/13	8,000	10,165	9,975	28,140
	4.75%	04/01/14	8,000	9,975	9,785	27,760
	4.75%	04/01/15	8,000	9,785	9,595	27,380
	4.75%	04/01/16	9,000	9,595	9,381	27,976
	4.75%	04/01/17	9,000	9,381	9,168	27,549
	4.75%	04/01/18	10,000	9,168	8,930	28,098
	4.75%	04/01/19	10,000	8,930	8,693	27,623
	4.75%	04/01/20	10,000	8,693	8,455	27,148
	4.75%	04/01/21	11,000	8,455	8,194	27,649
	4.75%	04/01/22	11,000	8,194	7,932	27,126
	4.75%	04/01/23	12,000	7,932	7,648	27,580
	4.75%	04/01/24	13,000	7,648	7,339	27,987
	4.75%	04/01/25	13,000	7,339	7,030	27,369
	4.75%	04/01/26	14,000	7,030	6,698	27,728
	4.75%	04/01/27	15,000	6,698	6,341	28,039
	4.75%	04/01/28	15,000	6,341	5,985	27,326
	4.75%	04/01/29	16,000	5,985	5,605	27,590
	4.75%	04/01/30	17,000	5,605	5,201	27,806
	4.75%	04/01/31	18,000	5,201	4,774	27,975
	4.75%	04/01/32	18,000	4,774	4,346	27,120
	4.75%	04/01/33	19,000	4,346	3,895	27,241
	4.75%	04/01/34	20,000	3,895	3,420	27,315
	4.75%	04/01/35	21,000	3,420	2,921	27,341
	4.75%	04/01/36	22,000	2,921	2,398	27,319
	4.75%	04/01/37	23,000	2,398	1,853	27,251
	4.75%	04/01/38	25,000	1,853	1,259	28,112
	4.75%	04/01/39	26,000	1,259	641	27,900
	4.75%	04/01/40	27,000	641	-	27,641
			<u>\$ 462,000</u>	<u>\$ 230,922</u>	<u>\$ 219,949</u>	<u>\$ 912,871</u>

**Pinconning Township**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**March 31, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	January Interest Payment	Total
<b>Governmental Activities</b>					
Dredge Loan	4.65%	1/13/08	\$ 23,733	\$ 15,450	\$ 39,183
Amount of issue - \$ 356,000	4.65%	1/13/09	23,733	14,347	38,080
	4.65%	1/13/10	23,733	13,243	36,976
	4.65%	1/13/11	23,733	12,140	35,873
	4.65%	1/13/12	23,733	11,036	34,769
	4.65%	1/13/13	23,733	9,932	33,665
	4.65%	1/13/14	23,733	8,829	32,562
	4.65%	1/13/15	23,733	7,725	31,458
	4.65%	1/13/16	23,733	6,622	30,355
	4.65%	1/13/17	23,734	5,518	29,252
	4.65%	1/13/18	23,734	4,414	28,148
	4.65%	1/13/19	23,734	3,311	27,045
	4.65%	1/13/20	23,734	2,207	25,941
	4.65%	1/13/21	23,734	1,104	24,838
			<u>\$ 332,267</u>	<u>\$ 115,878</u>	<u>\$ 448,145</u>

**Pinconning Township**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**March 31, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	May Interest Payment	November Interest Payment	Total
<b>Business-type Activities</b>						
Water Supply System	4.75%	05/01/07	\$ 6,000	\$ 12,588	\$ 12,445	\$ 31,033
Revenue Bonds, Series 2001	4.75%	05/01/08	6,000	12,445	12,303	30,748
Amount of issue - \$ 555,000	4.75%	05/01/09	6,000	12,303	12,160	30,463
	4.75%	05/01/10	7,000	12,160	11,994	31,154
	4.75%	05/01/11	7,000	11,994	11,828	30,822
	4.75%	05/01/12	7,000	11,828	11,661	30,489
	4.75%	05/01/13	8,000	11,661	11,471	31,132
	4.75%	05/01/14	8,000	11,471	11,281	30,752
	4.75%	05/01/15	9,000	11,281	11,068	31,349
	4.75%	05/01/16	9,000	11,068	10,854	30,922
	4.75%	05/01/17	9,000	10,854	10,640	30,494
	4.75%	05/01/18	10,000	10,640	10,403	31,043
	4.75%	05/01/19	10,000	10,403	10,165	30,568
	4.75%	05/01/20	11,000	10,165	9,904	31,069
	4.75%	05/01/21	12,000	9,904	9,619	31,523
	4.75%	05/01/22	12,000	9,619	9,334	30,953
	4.75%	05/01/23	13,000	9,334	9,025	31,359
	4.75%	05/01/24	13,000	9,025	8,716	30,741
	4.75%	05/01/25	14,000	8,716	8,384	31,100
	4.75%	05/01/26	15,000	8,384	8,028	31,412
	4.75%	05/01/27	16,000	8,028	7,648	31,676
	4.75%	05/01/28	16,000	7,648	7,268	30,916
	4.75%	05/01/29	17,000	7,268	6,864	31,132
	4.75%	05/01/30	18,000	6,864	6,436	31,300
	4.75%	05/01/31	19,000	6,436	5,985	31,421
	4.75%	05/01/32	20,000	5,985	5,510	31,495
	4.75%	05/01/33	21,000	5,510	5,011	31,521
	4.75%	05/01/34	22,000	5,011	4,489	31,500
	4.75%	05/01/35	23,000	4,489	3,943	31,432
	4.75%	05/01/36	24,000	3,943	3,373	31,316
	4.75%	05/01/37	26,000	3,373	2,755	32,128
	4.75%	05/01/38	27,000	2,755	2,114	31,869
	4.75%	05/01/39	28,000	2,114	1,449	31,563
	4.75%	05/01/40	30,000	1,449	736	32,185
	4.75%	05/01/41	31,000	736	-	31,736
			<u>\$ 530,000</u>	<u>\$ 287,452</u>	<u>\$ 274,864</u>	<u>\$ 1,092,316</u>

**Pinconning Township**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**March 31, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	May Interest Payment	November Interest Payment	Total
<b>Business-type Activities</b>						
2001 Special Assessment Limited	4.75%	05/01/07	\$ 35,000	\$ 23,750	\$ 22,919	\$ 81,669
Tax Bonds	4.75%	05/01/08	35,000	22,919	22,088	80,007
Amount of issue - \$ 1,377,000	4.75%	05/01/09	35,000	22,088	21,256	78,344
	4.75%	05/01/10	35,000	21,256	20,425	76,681
	4.75%	05/01/11	35,000	20,425	19,594	75,019
	4.75%	05/01/12	35,000	19,594	18,763	73,357
	4.75%	05/01/13	35,000	18,763	17,931	71,694
	4.75%	05/01/14	35,000	17,931	17,100	70,031
	4.75%	05/01/15	35,000	17,100	16,269	68,369
	4.75%	05/01/16	35,000	16,269	15,438	66,707
	4.75%	05/01/17	35,000	15,438	14,606	65,044
	4.75%	05/01/18	35,000	14,606	13,775	63,381
	4.75%	05/01/19	35,000	13,775	12,944	61,719
	4.75%	05/01/20	35,000	12,944	12,113	60,057
	4.75%	05/01/21	35,000	12,113	11,281	58,394
	4.75%	05/01/22	35,000	11,281	10,450	56,731
	4.75%	05/01/23	35,000	10,450	9,619	55,069
	4.75%	05/01/24	35,000	9,619	8,788	53,407
	4.75%	05/01/25	36,000	8,788	7,933	52,721
	4.75%	05/01/26	36,000	7,933	7,078	51,011
	4.75%	05/01/27	36,000	7,078	6,223	49,301
	4.75%	05/01/28	36,000	6,223	5,388	47,611
	4.75%	05/01/29	36,000	5,388	4,513	45,901
	4.75%	05/01/30	36,000	4,513	3,658	44,171
	4.75%	05/01/31	36,000	3,658	2,803	42,461
	4.75%	05/01/32	36,000	2,803	1,948	40,751
	4.75%	05/01/33	36,000	1,948	1,093	39,041
	4.75%	05/01/34	36,000	1,093	238	37,331
	4.75%	05/01/35	10,000	238	-	10,238
			<u>\$ 1,000,000</u>	<u>\$ 349,984</u>	<u>\$ 326,234</u>	<u>\$ 1,676,218</u>

**Pinconning Township**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**March 31, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	October Interest Payment	Total
<b>Business-type Activities</b>					
District #5 Waterline	4.69%	10/31/07	\$ 19,916	\$ 17,870	\$ 37,786
Amount of issue - \$ 400,000	4.69%	10/31/08	20,795	16,939	37,734
	4.69%	10/31/09	21,770	15,963	37,733
	4.69%	10/31/10	22,791	14,942	37,733
	4.69%	10/31/11	23,860	13,873	37,733
	4.69%	10/31/12	24,979	12,754	37,733
	4.69%	10/31/13	26,151	11,583	37,734
	4.69%	10/31/14	27,377	10,356	37,733
	4.69%	10/31/15	28,661	9,072	37,733
	4.69%	10/31/16	30,006	7,728	37,734
	4.69%	10/31/17	31,413	6,321	37,734
	4.69%	10/31/18	32,886	4,847	37,733
	4.69%	10/31/19	34,429	3,305	37,734
	4.69%	10/31/20	36,044	1,691	37,735
			<u>\$ 381,078</u>	<u>\$ 147,244</u>	<u>\$ 528,322</u>
District #6 Waterline	4.69%	10/31/07	\$ 4,979	\$ 4,468	\$ 9,447
Amount of issue - \$ 100,000	4.69%	10/31/08	5,199	4,235	9,434
	4.69%	10/31/09	5,443	3,991	9,434
	4.69%	10/31/10	5,698	3,736	9,434
	4.69%	10/31/11	5,965	3,468	9,433
	4.69%	10/31/12	6,245	3,189	9,434
	4.69%	10/31/13	6,538	2,896	9,434
	4.69%	10/31/14	6,844	2,589	9,433
	4.69%	10/31/15	7,165	2,268	9,433
	4.69%	10/31/16	7,501	1,932	9,433
	4.69%	10/31/17	7,853	1,580	9,433
	4.69%	10/31/18	8,222	1,212	9,434
	4.69%	10/31/19	8,607	826	9,433
	4.69%	10/31/20	9,011	423	9,434
			<u>\$ 95,270</u>	<u>\$ 36,813</u>	<u>\$ 132,083</u>

**Pinconning Township**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**March 31, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	October Interest Payment	Total
<b>Business-type Activities</b>					
District #7 Waterline	5.04%	03/14/08	\$ 2,310	\$ 2,520	\$ 4,830
Amount of issue - \$ 100,000	5.04%	03/14/09	2,427	2,403	4,830
	5.04%	03/14/10	2,549	2,281	4,830
	5.04%	03/14/11	2,677	2,153	4,830
	5.04%	03/14/12	2,812	2,018	4,830
	5.04%	03/14/13	2,954	1,876	4,830
	5.04%	03/14/14	3,103	1,727	4,830
	5.04%	03/14/15	3,259	1,571	4,830
	5.04%	03/14/16	3,424	1,406	4,830
	5.04%	03/14/17	3,596	1,234	4,830
	5.04%	03/14/18	3,777	1,053	4,830
	5.04%	03/14/19	3,968	862	4,830
	5.04%	03/14/20	4,168	662	4,830
	5.04%	03/14/21	4,378	452	4,830
	5.04%	03/14/22	4,598	232	4,830
			<u>\$ 50,000</u>	<u>\$ 22,450</u>	<u>\$ 72,450</u>

**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance  
with Government Auditing Standards**

To the Township Board  
Pinconning Township  
Bay County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Pinconning Township as of and for the year ended March 31, 2007, which collectively comprise Pinconning Township's basic financial statements and have issued our report thereon dated August 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Pinconning Township's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pinconning Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pinconning Township's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We have identified the following deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

1. In accordance with the Michigan Department of Treasury's Uniform Accounting Procedures Manual all bank accounts must be reconciled to the local units accounting records monthly. The Treasurer and Clerk's records, must agree with one another and the bank records. All differences are to be shown as reconciling items. In the current year the Treasurer was not reconciling bank accounts. The Treasurer does not record transactions in the general ledger until the bank statement is received and then the activity is posted and the reconciliation is performed. Only amounts clearing the bank are being recorded on the general ledger, therefore no outstanding checks or deposits in transit are being tracked. We recommend all general ledger transactions be recorded as they occur or within a reasonable time thereafter. In addition, a second official of the Township needs to review the reconciliation each month verifying the account is reconciled.
2. Again in the current year several accounts, to include long term liabilities, special assessments, receivables and transfers were not reconciled at the end of the year. Some of these items could have been completed through some of the following: basic general ledger account reconciliations, basic general ledger posting, and simple double entry accounting. Many of these items should have been reconciled by year end. We continue to recommend that management continue to make improvements in this area to make sure the Township Board is getting the most accurate and up to date information on which to make decisions. In addition, management should evaluate the current accounting system to make sure that it is adequate, and properly set up to meet the financial reporting needs of the Township.
3. As part of our audit planning procedures, we are required to obtain an understanding of internal control of Pinconning Township. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that Pinconning Township completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

4. Our review of the Township's procedures indicated that there is a lack of segregation of duties over the receipts and disbursement process. To provide effective control it would be necessary to separate each of these duties. At the present time the Treasurer's duties includes all of these functions. Proper segregation is not always possible in a small entity, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors and fraud.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

1. In reviewing the budget to actual comparisons for the year it was evident that a budget was not adopted for all required funds. According to the Uniform Budgeting and Accounting Act the only funds that are required to adopt budgets are the general and special revenue funds. Capital project funds, debt service funds and enterprise funds (water fund) are not required to adopt budgets. We recommend following a budget for the water fund and any future capital project funds internally to better account and track the Township's finances.

Additionally, the following items were noted and reported to the management of the Township.

1. During our audit we noted that the duties assigned to the Treasurer exceed the knowledge that the treasurer has for maintaining financial accounts using the software that the Township provided. We recommend that the Treasurer receive additional training on the accounting package.
2. The Township receives water services from the West Bay County Water and Sewer. Invoice for these services do not show the water used by the Township. Additionally, the Township does not monitor the usage by other means. We recommend that the Township review and approve each quarterly payment and request a usage and fee calculation to identify unusual trends.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
August 2, 2007